

N.C. GENERAL ASSEMBLY LEGISLATIVE FISCAL NOTE

Fiscal Research  
733-4910

Prepared By: N.Yeager/M.Marbet	Date Prepared: 4-27-89	Bill No.: HB 889	Edition: 1
Approved By: Tom Covington TOMC	4/27/89		Sponsor: Representative Holt
Short Title: NONPROFIT NURSING HOME C.O.N.			

TYPE OF FISCAL IMPACT		FUNDS AFFECTED:		( ) Other:
		(X) General	( ) Highway	(X) Local
County/				
State Gov't	Local Gov't	State Fiscal Impact		
Prepared Impact ( )	( )	State Total Req'ments \$2,855 per bed per year		
Increase Expenditure (X)	(X)	Receipts/Revenues		
Decrease Expenditure ( )	( )	Net State Expend./Rev.		
		No. of Positions		
		Local Fiscal Impact		
Increase Revenue ( )	( )	Local Total Req'ments \$504 per bed per year		
Decrease Revenue ( )	( )	Receipts/Revenues		
No Total Est. Avail. (X)*	(X)*	Net Local Expend./Rev.		
		No. of Positions		

\*No Total Estimate Available by fiscal year. Please see Medicaid Program Assumptions (Page 3) for explanation of per bed cost estimate.

Description of Legislation

1. Summary of Legislation:

This bill would remove the Certificate of Need requirements from non-profit nursing homes. The bill amends G.S. 131E-176 to limit the definition of long term health care facility and related terms to "for profit" facilities.

2. Effective Date:

October 1, 1989

3. Fund or Tax Affected:

General Fund

4. Principal Department/Program Affected:

Department of Human Resources, Division of Medical Assistance, Medicaid Program

Cost or Revenue Impact on State

1. Non-Recurring Costs/Revenues

2. Recurring Costs/Revenues \$2,855 per bed annually

3. Fiscal/Revenue Assumptions

Cost/Revenue Impact on County or Local Government

1. Non-Recurring Costs/Revenues

2. Recurring Costs/Revenues \$504 per bed annually

3. Fiscal/Revenue Assumptions

Sources of Data for Fiscal Note

Division of Medical Assistance  
Division of Facility Services

Technical Considerations/Comments

The CON program was established in 1978, as a result of legislation, and its purpose is to plan and control the development of health care facilities in the state. Generally, health care facilities such as hospitals, cardiac rehabilitation program, home health agencies, hospices and nursing homes are required to obtain a CON. HB 889 would remove the CON requirement for anyone wishing to build a non-profit nursing home. In North Carolina there are currently 39 facilities licensed as non-profit nursing homes, having a total of 3,492 beds (both Skill Nursing and Intermediate Care beds). In addition, 26 non-profit hospitals operate long-term care units with a total of 1,151 beds. Non-profit nursing home beds account for 19% of all nursing

home beds, licensed in North Carolina.

The fiscal long-term impact of HB 889 is currently difficult to estimate. If the legislation is enacted, possibly all future nursing home beds built will be through non-profit organizations, so that there would probably be a proliferation of non-profit organizations established. According to information provided by the Department of Human Resources, if CON is eliminated for nursing home beds and the bed supply grows to the national average, an additional 14,000 beds would come on line. This figure is based on the fact that North Carolina has approximately 33 nursing home beds per thousand elderly persons, 37% below the national average of 52 beds per thousand elderly persons. The Attachment describes some fiscal assumptions that must be made, if CON is eliminated for nursing home beds.

ATTACHMENT

#### FISCAL ASSUMPTIONS

##### Medicaid Program Assumptions

Any person who enters a nursing home is a potential Medicaid beneficiary for the following reasons:

The average annual cost of Skilled Nursing Care (SNF) is more than \$22,000; Intermediate level care (ICF) costs roughly \$17,000 annually. Elderly persons with incomes below the cost of their nursing care generally use their assets to pay for the portion of their care that is not covered by their monthly income. When the assets of the individual are depleted, he or she qualifies for assistance from the Medicaid Program. Medicaid pays for the portion of the nursing care costs that is not met by the patient's monthly income. Elderly persons who qualify for coverage in this way receive a lifetime benefit with no limitations or caps. Seven of every ten nursing home beds in North Carolina is filled with a person who is a Medicaid beneficiary.

Elderly persons who remain at home are less likely to qualify for Medicaid because their monthly Medical expenses at home are smaller. Smaller medical expenses mean that the individual's monthly income and assets are so low that they qualify for Medicaid coverage while living at home have lower expenses than do nursing home patients. For these reasons, nursing home patients are more likely to become Medicaid beneficiaries. Furthermore, nursing home patients are the most costly beneficiaries of the program.

For every bed in the existing nursing home bed inventory, the Medicaid Program currently budgets \$10,500. The General Assembly appropriates \$2,855 per bed and county government pays \$504 per bed. These are annual costs and take into account the portion of nursing care that patients pay. (See cost assumptions attached.) Costs per bed in the years ahead are likely to undergo a disproportionately large increase due to increased staffing, training, and personnel costs that are the product of federal Nursing Home Reform. Nursing Home Reform also requires states to demonstrate to the federal government that the cost of these mandated improvements has been factored into nursing home reimbursements by state Medicaid programs.

Experience enables the Medicaid program to budget costs accurately for the Medicaid eligible patient. The state has been less successful in estimating when it can expect a nursing home bed to affect the Medicaid budget. A variety of uncontrollable factors affect the timing of the beds impact on the state budget. These factors include the construction, licensing and certification of the facility, the speed with which a facility is staffed and occupied, the timing of a patient's eligibility.

The Division of Facility Services estimates that there will be an increase of 14,000 nursing home beds if Certificate of Need is abolished for nursing care. What portion of those beds will be built if CON is lifted for non-profits only is unknown. It is possible that non-profit organizations build all the estimated beds. At current costs to the Medicaid program, every increase of 1,000 beds means an increase of \$10.5 million dollars in budgeted requirements in the Medicaid Program, requiring \$2.9 million dollars in state appropriations, and \$504,000 in county outlays. The time frame in which these funds should be budgeted is unknown.

#### Medicaid Costs Assumptions

1. Future utilization patterns will conform to those in the recent past. 70% of all beds will be Medicaid program supported beds. 55.7% of these beds will be Intermediate Care Level beds; 44.3% will be Skilled Nursing beds.
2. Patient liability for care will pay for 20% of total expenditures for Medicaid eligibles.
3. Cost estimates based upon estimated costs for FY 88-89. Costs do not include the anticipated cost increases for federal Nursing Home Reform legislation, Catastrophic Health Care Act of 1988, or inflation. Costs do not include factors for reduced federal participation in Medicaid Program due to federal revisions in annual FFP rate.

4. Estimates calculated on current participation rates: Federal, 68.01%; State, 85% of non-federal share; County, 15% of non-federal share.

5. Total Annual Cost: \$10,500  
Federal Share \$ 7,141  
County Share \$ 504  
STATE SHARE \$ 2,855

Division of Medical Assistance estimates prepared by Nina Yeager



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